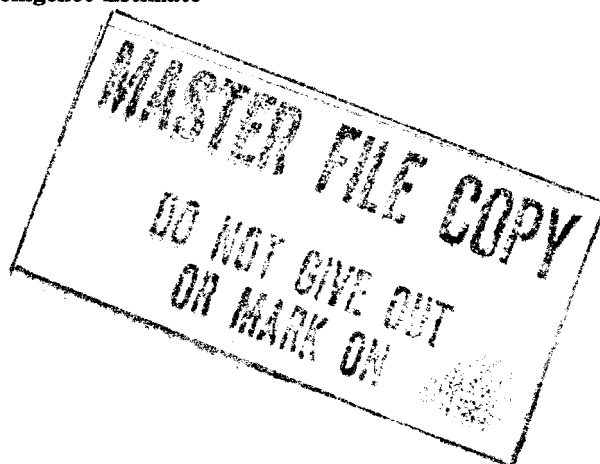




Israel: Domestic Politics, Succession Issues, and Foreign Policy Implications

Special National Intelligence Estimate



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ISRAEL: DOMESTIC POLITICS,
SUCCESSION ISSUES, AND
FOREIGN POLICY IMPLICATIONS

Information available as of 15 August 1983 was
used in the preparation of this Estimate.

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SCOPE NOTE

This Special National Intelligence Estimate examines the outlook for Israeli domestic politics over the next three years, the impact of those politics on Israel's foreign policy, and the limits of Israeli flexibility.

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this Estimate focuses on the succession issue. In particular, it looks at how Prime Minister Begin's passing may affect Israeli policy in the Arab-Israeli peace process. The impact of the war in Lebanon on Israeli politics is examined, as is Israeli policy toward the West Bank and other occupied territories. The implications for US-Israeli relations are highlighted.

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KEY JUDGMENTS

A year after the invasion of Lebanon, Prime Minister Begin's political power remains intact. He retains a position of unrivaled supremacy in the Herut Party, the dominant partner of the ruling Likud bloc, and, barring unforeseen developments, is likely to remain Prime Minister over the next three years.

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A war-weary Israeli populace has come to view the yearlong involvement in Lebanon as providing Israel with few tangible benefits, and those obtained at an excessively high cost. The government's recognition of the populace's desire to remove Israel from the Lebanese quagmire and to stop the continuing casualties has led it to opt for partial withdrawal. A more important long-term result of the Lebanese imbroglio, however, may be to engender a fundamental reevaluation of Israel's strategic policy. The use of force to accomplish political goals probably will be more sharply questioned in the future. Nevertheless, Israel will never be constrained from exploiting its military superiority when it calculates that the goals, especially when they are primarily security, justify the costs.

Begin retains the loyalty and support of the majority Sephardi¹ component of the Israeli electorate and it is difficult to foresee any set of circumstances—short of severe economic hardship, which could result from rigorous austerity measures—that would turn them against the Prime Minister. Begin knows how to appeal to this constituency and is likely to continue to be able to convince them that he better represents their interests and concerns than any alternative leader could. Support for Begin also has increased among the younger elements—including the Ashkenazi—of the Israeli electorate.

Begin's popularity—particularly among the Sephardi constituency—derives from the favorable response to his confrontational pos-

¹ A Sephardi—or Oriental Jew—is one whose family origins are in North Africa, the Middle East, or the Iberian peninsula, as distinct from an Ashkenazi whose origin is in northern or eastern Europe. Ashkenazim traditionally have exercised political influence and control in Israel.

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ture, strong anti-Arab positions, and the emotional brand of nationalism he preaches. But Begin also reflects, in large measure, the essential elements of the Israeli consensus, which will remain intact whether Labor or Likud leads Israel in future years:

- There will be no return to pre-June 1967 borders, although minor adjustments are envisaged by some.
- Settlement activity will be permitted to continue on the West Bank and Gaza.
- Israel will retain political sovereignty over a united Jerusalem.
- Israel will not negotiate with the PLO.
- Israel will rely ultimately on its own military to ensure its security.
- Although eager to keep the US relationship in good repair, Israel will not make concessions to the United States that would reduce its ability to determine independently what is essential for its security.

The government's principal objective in the West Bank is to achieve the de facto incorporation of this area into Israel. The Begin government regards the retention of this area as both indispensable to Israeli security and an historically mandated imperative. A collateral objective—and at the same time a means for implementing the primary goal—is dense Jewish settlement throughout Judaea and Samaria, as Begin refers to the West Bank.

The Begin government does not, in practice, seek the formal annexation of the West Bank. For one thing, such a step would inevitably entail a severe deterioration in US-Israeli relations. Prime Minister Begin has a powerful aversion to permitting an estrangement of relations with the United States and would go to great lengths to avoid it. Many in the Likud—including Begin, we believe—realize that formal annexation is an impracticality.

A second factor militating against annexation is the strong opposition of a significant segment of the Israeli public to such a move. There exists considerable apprehension over the prospect of adding almost 800,000 Arabs to Israel's rapidly growing Arab population.

The West Bank policies of the labor alignment differ from those of the Likud bloc more on nuances and tactics than on substantive issues. Although Labor remains more flexible in its approach to negotiations

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than Likud, it is no less insistent on guarantees for Israel's security and continued control over a unified Jerusalem. Even Labor's apparent flexibility could be severely constrained—were it to come to power—by deep divisions within Israeli public opinion on West Bank issues, Labor's own leadership divisions, and the likely participation of the hardline religious parties in a governing coalition.

No successor regime could halt or reverse the policy of settlement and de facto absorption of the West Bank. It would inevitably be weaker than a Begin-led government because it would lack his enormous political power. Therefore, it would have less leeway to act contrary to public opinion on the West Bank issue or be as responsive to US concerns as the Begin government. The pace of settlement, however, might be varied by a successor regime.

While Begin's current position is strong, should the security situation in southern Lebanon deteriorate sharply, accompanied by increasing casualties, and rocket attacks on northern Israel or PLO infiltration from Lebanon resume, he could come under acute political pressure. If combined with a sharp deterioration in the economy and escalating domestic dissension, Begin would have to act firmly—perhaps ordering a dramatic, surgical strike to make clear the limits of Israeli tolerance—to keep his standing from being undercut.

The Israeli economy may well take its toll on the ruling Likud bloc over the next three years, particularly if social and religious tensions intensify. The government will have to contend with a foreign exchange crunch, rising unemployment, and triple-digit inflation. With limited policy tools available and an Israeli public that has come to expect an ever-improving standard of living, economic policymakers will be faced with difficult choices. Rising unemployment holds the greatest potential risk because it is a particularly sensitive issue in Israel. Policymakers would act quickly to implement short-term palliatives to deal with the problem, especially if the rate rises sharply in advance of the elections required by the fall of 1985.

The Begin government has not yet demonstrated a willingness to tackle the serious, underlying economic problems. Instead, Israeli politicians continue to look for the easiest way to cope—asking the United States for increased aid on better terms.

Should Prime Minister Begin leave the scene voluntarily—a move we continue to believe unlikely—or through death

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the Likud coalition would suffer a serious, although probably not fatal, blow. The survival of the coalition will depend on the ability of his successors to retain the support of the Sephardi constituency and the religious parties. Should they succeed, Foreign Minister Shamir is most likely to become Prime Minister, at least for an interim period. Likely contenders following a Shamir interregnum include Deputy Prime Minister Levi—the highest ranking Sephardi—Defense Minister Arens, and possibly Finance Minister Aridor and former Defense Minister Sharon.

While the policies to be pursued by a successor regime will hinge to some degree on the regional situation at that time, the key determinant will be the role and degree of influence of Ariel Sharon. It is not possible to predict whether the former Defense Minister can rise to—or close to—the top again. If he succeeds, either by becoming Prime Minister or Defense Minister, Israeli policies will become increasingly aggressive and less conciliatory. Such a government would proceed with accelerated settlement activity in the West Bank, be extremely firm in its treatment of Arab West Bank residents, steer clear of any participation in negotiations leading toward territorial concessions, and wage a more aggressive campaign against the PLO. It would demonstrate little concern for US wishes or actions.

A non-Sharon dominated Cabinet, although likely to be considerably less hostile toward the United States, would, nevertheless, be less responsive to US interests and representations and less conciliatory than the Begin government has been. The weakness of a successor regime, with its need to retain the Begin constituency, would militate against its taking steps that might be construed as caving in on its security concerns.

Israeli leaders view Jordan, Saudi Arabia, and the other Gulf states as hostile to the interests of the Jewish state. The government, however, clearly sees Egypt—the only Arab state with which it has concluded a peace accord—in an entirely separate class. Israel has, nevertheless, been deeply disappointed by the “cold peace” that has marked its postpeace treaty relationship with Egypt and will continue to view its military deterrent power as ultimately keeping Egypt in the nonbelligerent camp.

All Israelis recognize the key importance of the US relationship. From Israel's perspective, the primary objective in this relationship is to maximize US support for and economic and military aid to Israel. It seeks to accomplish that by trying to strike a balance between US

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pressure to moderate some Israeli policies with domestic pressure to accelerate such policies. The government's negotiating stance, therefore, will combine resistance, evasiveness, and minimal concessions, always to avoid giving an appearance of weakness that could be exploited by hawkish, ultrarightist elements in the Israeli body politic.

While Israel would welcome a restoration of diplomatic relations with the USSR—severed by Moscow at the time of the 1967 war—there is little that Israel can or would be willing to offer Moscow as inducements. Prime Minister Begin has always been suspicious of and hostile toward the USSR. Moreover, Israel's relationship with the United States is strengthened by a commonality of interests that includes preventing Soviet penetration of the region. In Israel's view, Moscow is unlikely to move away from its strong support of the Arab cause, to halt its anti-Zionist campaign, or to liberalize its policy on Jewish emigration from the USSR to gain points with Israel.

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Israel and the Occupied Territories



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DISCUSSION

The Current Scene

1. The dramatic watershed experiences of the past year—the invasion of Lebanon, the siege of Beirut, the massacres at the Sabra and Shatila camps, the conclusions of the Kahan Commission Inquiry and the resultant Cabinet shuffle—have not diminished Prime Minister Begin's hold on power. He remains at the center and has retained the broad support of the majority of the Israeli body politic. His essential policies remain unaltered and the Cabinet changes that followed the recommendations of the Kahan Commission report, together with Israel's agreement to—and Syria's forceful rejection of—a troop withdrawal pact with Lebanon, have brought the US relationship back onto an amiable plane—a key goal of any Israeli government.

2. Begin's political position and the sources of his power remain intact. Nevertheless, [REDACTED]

[REDACTED] external and internal developments—for example, resumed rocket attacks or terrorist infiltration from southern Lebanon, a major and costly new conflict with Syria, sharply deteriorating economic conditions, and serious internal dissension—could undermine his position and precipitate his removal from the scene some time during the next three years.

3. In any case, whether Begin remains at the center of power or whether the mantle is passed on, the major tenets of Israeli policy, both domestic and foreign, will remain intact. While the nuances of those policies and the tactics used to implement them would vary according to the leadership, there will remain basic agreement within Israel as to the fundamental assumptions under which any government will operate:

— **There will be no return to the pre-June 1967 borders.** The consensus within Israel holding to the view that the pre-1967 borders are inadequate to protect Israel's vital security needs is very broad. There are, however, significant variations within the consensus band. Those within

the Orthodox public traditionally associated with the National Religious Party and now active in the ultranationalist Gush Emunim will vehemently oppose any return of the "holy soil" of Judaea and Samaria while most of the rest of the population will accept concessions on the West Bank issue, subject, of course, to what they see as national security requirements. The Labor Party position is that territorial concessions should eventually be made in order to secure a lasting peace. Prime Minister Begin and many of his colleagues believe that the territory must never again be alienated and that retention is vital to assure the security of Israel's densely populated coastal plain. As long as the West Bank issue remains unresolved, the Israeli Jewish populace on the whole will continue to expect that they will be permitted to purchase land and establish settlements on the West Bank and Gaza. Moreover, they expect freedom of movement within those regions and between them and Israel proper.

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— **Israel will retain political sovereignty over a united Jerusalem.** There is virtually universal support for the retention of political sovereignty over a united city. All Jewish Israelis have a deep attachment to the city because of its place in their religious tradition and history. An overwhelming percentage of Israelis reject any sharing of sovereignty over the city with the Arabs. Neither major political bloc within Israel—Likud or Labor—would be likely to offer more than expanded municipal decentralization designed to accord greater autonomy to the Arab population and to preserve Arab control over Jerusalem's Muslim holy sites.

— **Israel will neither negotiate with nor recognize the PLO.** Even such minor elements within Israel as might have favored a dialogue with the PLO will find that the recent wrenching divisions within the organization make their case

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very weak. A PLO or any other Palestinian body subservient to Syria is not acceptable as a partner for discussing means of bringing about a resolution of the Palestinian issue. Even prior to recent developments, however, the vast majority of the Israeli public opposed negotiation with the PLO even if it were willing to modify its charter to recognize Israel and renounce terrorism. Their concern is that this would lead inevitably to establishment of a Palestinian state in the West Bank and Gaza. Nonetheless, a peace overture by an alternative representative of the Palestinians that appeared to Israel as serious might receive a sympathetic hearing in some quarters.

— **Israel will rely upon its own military ultimately to ensure its security.** Israel's commitment to maintenance of a military edge over any combination of Arab opponents will not be seriously challenged by any component of the polity. It does not want to have to rely on the United States to provide a defense umbrella. Defense spending remains sacrosanct, and Israel will continue to move toward more indigenous production of arms and adaptation of imported arms to meet its own perceived requirements. While Israel's ultimate goal is to increase its self-sufficiency, it recognizes that it will remain dependent on the United States for advanced weapon systems.

— **The US relationship must be kept in good repair.** Even the most hawkish elements in Israel fall within the consensus band that acknowledges the criticality of the US link. There is no alternative source of economic and military aid and keeping the flow of assistance at high levels requires that the relationship with the United States be kept in good repair. While Israelis of all stripes see the need to sometimes act in ways that placate the United States, policymakers simultaneously will act to prevent the United States from pressuring Israel to secure its compliance with US demands.

The Domestic Political Scene

4. The sources of Begin's great political power remain intact. The creator and master of Herut, the dominant component of the ruling Likud, Begin retains a position of unrivaled supremacy in his party. A

master of political maneuvering, Begin remains highly adept at playing potential successors off against one another, thereby increasing their dependence on him and bolstering his own power. Begin enjoys the exercise of power and continues to believe that only if he remains Prime Minister can Israel's security be guaranteed.

5. Israel, under Begin's leadership, has suffered significant disappointments and reverses: a deteriorating economy; the relinquishment of valuable territorial, strategic, and economic assets in exchange for a peace with Egypt which many Israelis have come to regard with bitter disappointment as a "hollow shell"; a costly, and unpopular war and continuing occupation in Lebanon; persistent religious/secular tensions; recurrent, unseemly Cabinet and coalition squabbles;

recurrent strains in relations with the United States; and the critical report of the Kahan Commission regarding the performance of key government and military figures in Lebanon. None of these, nor the lack of a significant narrowing of the gap in living conditions for Israel's Sephardi community relative to that of the Ashkenazim, has shaken Begin's remarkable hold on the key Sephardi electorate.

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Coalition Politics and the Succession

7. For the time being, the Likud coalition remains intact, largely because there are no satisfactory alternatives for the minority religious parties who are the major coalition partner with Likud. The only likely source of serious threats to the coalition would emanate from an unbridgeable conflict between the religious parties and the secularists within Likud, or the incapacitation or death of Begin. Were such a crisis to arise, however, it most likely would be resolved without new elections. Despite their pre-1977 history of forming governing coalitions with the Labor alignment, the religious parties will stick with Begin because they respect his impressive personal political popularity, which far outweighs that of any possible Labor contender.

8. The ultranationalist Tehiya Party also is unlikely to leave the coalition. Despite their mistrust of Begin and their view that he tends to be too willing to grant concessions, Tehiya leaders have even less affinity for Labor, whose membership they describe as rife with "defeatists" and "appeasers." Only if Begin were to proclaim a moratorium on settlements, or if he appeared to be on the verge of agreeing to territorial concessions in the West Bank, would Tehiya be inclined to seek to bring down the government.

9. The religious parties, fearing a loss of seats and a diminution of their political leverage in the event new elections are held, have opposed early elections. Begin would be unlikely to support early elections in the face of their continued opposition. Only a crisis over some religious issue—unlikely given Begin's propensity to find compromises satisfactory to his indispensable coalition partners—would lead to new elections.

10. Should Begin leave the scene either voluntarily or through death, the coalition would be dealt a serious, but not necessarily fatal, blow. Begin is both the Likud's chief votegetter and the cement that holds the religious parties in the coalition. The key questions are whether his successors will be able to retain the support of the constituency he has almost singlehandedly built up, and whether they will demonstrate the same skill in conciliating the religious parties. The ability of the coalition to withstand his departure will in part turn upon the dexterity Labor demonstrates in enhancing its appeal to the Sephardim and repairing its frayed relations with the Orthodox parties. Even if the coalition can quickly choose a compromise interim leader—Foreign Minister Shamir appears the most likely—there will be intense jockeying for power.

11. While former Defense Minister Sharon may well have been the front-runner prior to the Lebanese war, his handling of the war and subsequent loss of that most influential slot has placed him in a state of political eclipse. It is too early to predict, however, whether he can climb back to the top of the political pyramid. Even in his current position as a Cabinet member without a portfolio, Sharon performs several functions:

- He serves as a counterweight to current Defense Minister Moshe Arens and the other moderates in the Cabinet. The maintenance of a balance between the hawks and the doves serves to further enhance Begin's power.
- He offers alternative policy options. Begin can easily revert to Sharon and his policies should circumstances seem to dictate the wisdom of doing so.
- His position in the Cabinet placates the right, who oppose Begin's revised course in Lebanon.

12. Should Sharon succeed in again exercising a dominant voice in that successor government, Israeli policies will be far more aggressive and less conciliatory than if he remains on the sidelines. A Sharon-dominated government would not demonstrate great concern for American wishes or actions. In the West Bank, such a government would press forward vigor-

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Key Israeli Political Figures



Camera Press ©

Menachem Begin,
Prime Minister



Wide World ©

Moshe Arens,
Defense Minister (l);
Yitzhak Shamir,
Foreign Minister (r)



Wide World ©

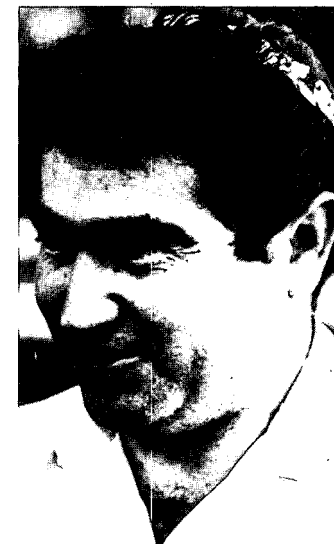
Ariel Sharon,
former Defense Minister



David Levi,
Deputy Prime Minister
and Minister of Housing



Yoram Aridor,
Finance Minister



Pictorial Parade ©

Zevulun Hammer,
Minister of
Education

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ously with massive settlement and maintain a firm hand toward the local Arab population. There would be no interest in negotiating peace in exchange for territorial concessions, and the policy toward the PLO would be extremely bellicose.

13. Such a government would do nothing to facilitate entry of Jordan's King Hussein into negotiations. While a Sharon-dominated government would be unlikely to attempt to destabilize the Hashemite monarchy, it would not try to help Hussein if his regime were jeopardized. On the Lebanese issue, Sharon would react vigorously and comprehensively to any PLO or Syrian challenge. While Sharon appreciates the importance of keeping Egypt out of the Arab belligerent camp, he would stand ready to pressure Egypt heavily if the Egyptians violated the peace treaty. Sharon also would resist, and might seek to demonstrate, active defiance of any US attempts to exert pressure on Israel.

14. For the time being, Defense Minister Arens has assumed much of the mantle of influence enjoyed by his predecessor [redacted]

[redacted] Arens rejects as grandiose the ambitions Sharon entertained for achieving a political restructuring of Lebanon under Israeli auspices.

15. While Arens currently is a very influential decisionmaker, his long-term prospects are problematic. Arens has not yet developed an independent power base, and, in fact, the key to his role and influence in the government is the strength of his relationship with Prime Minister Begin. While Begin typically allows himself to be guided by the recommendations of his closest adviser, the Prime Minister in the first place selects the adviser who will give him the kind of advice he desires to receive. In following the "advice" he is rendered, Begin allows his subordinates—whether a Dayan, Weizman, Sharon, or an Arens—to do the detail work and become the potential scapegoat in the event that the policy fails.

16. Foreign Minister Shamir, who has always been a determined hawk, has not played a very active role in government decisionmaking; he has invariably deferred to Begin. Indeed, Shamir's tenure as Foreign Minister appears to have sensitized him to the impor-

tance of maintaining good relations with the United States, even if sometimes at the expense of pursuing his own hawkish inclinations. On the issues of the West Bank and settlements, however, he maintains his viewpoint. Shamir's relative passivity is likely to continue, as the Prime Minister and Defense Minister continue to dominate the policymaking process. Despite his pallid performance, he would be most likely to become Likud leader and Prime Minister in the event of Begin's departure.

17. Deputy Prime Minister and Minister of Housing Levi appears at present to have the best chance for securing the leadership following a Shamir interregnum. Levi, the leading Sephardi in the Israeli Cabinet, is a serious contender because of his popularity with the Sephardi community and Histadrut, the large national labor organization. While influential within Herut, forces within the party appear to be aligning against him. Levi's less than forthright support of the government policy in Lebanon in particular antagonized Shamir.

18. In addition to Sharon, Arens, and Levi, former Defense Minister Ezer Weizman and Finance Minister Aridor remain possible contenders. Weizman's prospects appear remote although he could receive an important post in a successor government, especially if the Likud leaders felt insecure and needed his electoral drawing power. Aridor, once regarded as the omnipotent party boss of Herut, in recent months has been beset by stinging criticism—both from the public and coalition members—over his economic policies. The Cabinet's decision to authorize arbitration in the debilitating doctors' strike represented a serious loss of face for Aridor, who has been an unrelenting advocate of a policy of wage restraint. Another important development has been the demise of Aridor's long-standing alliance with Deputy Prime Minister Levi.

19. Although not a contender for the top leadership position, Zevulun Hammer, the Minister of Education and the key figure in Begin's most important coalition partner, the National Religious Party (NRP), has become perhaps the most influential voice in the Cabinet after the two principal ministers. His influence is inevitably limited by the fact that his party—which contains factions and individuals who are antagonistic toward him—is a small one. Nonetheless, Hammer, a man of intelligence and dynamism, virtually forced

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Begin to accept a judicial inquiry into the Beirut massacre, which resulted ultimately in Sharon's downgrading and the adoption by Begin of a new policy toward Lebanon. Hammer acted as perhaps the most outspoken and most influential opponent of Sharon during the Lebanon war last summer. Despite his hawkish attitude in earlier years, Hammer has for months been an important force for moderation in both Lebanon and, even more significantly, in the West Bank. The great leverage the NRP has been able to exert in the past may decline dramatically, however, unless the party is able to reverse its weakened electoral status and recapture members from among those who have left the party. The NRP's acknowledgment of Begin's tremendous electoral appeal limits Hammer's ability to demand policy changes that Begin opposes. Hammer's influence is likely to remain at its current level for the foreseeable future.

Israeli Foreign Policies in a Post-Begin Environment

20. Any successor regime would inevitably be weaker than Begin's, and would lack Begin's enormous political power. The Begin constituency, which has given the Prime Minister virtual *carte blanche* in his conduct of the nation's affairs, would not give a successor comparable leeway. The credentials of any successor to Begin would be in question; consequently, he would have to bend over backwards to retain the support of the Herut constituency. Furthermore, a "dovish" successor would be vulnerable to attack from the right, and would thus have to lean toward a more centrist position, irrespective of his policy preferences.

21. Any successor regime (apart from one dominated by Sharon)—whether led by Levi, Aridor, Shamir, Weizman, or Arens, would be unable to halt, or reverse, the policy of settlement and *de facto* absorption of the West Bank. Even a more dovish prime minister who was willing to offer concessions—slowing of settlement activity, for example—would find it difficult to translate that willingness into an ability to make concrete concessions and conclude a peace agreement. In Lebanon, an eagerness to withdraw could be consummated by a more "dovish" cabinet. The resumption of PLO terrorism or establishment of a greater degree of Syrian hegemony, however, would force any Israeli government to adopt a forceful,

offensive policy. Domestic political realities, expressed in the press or public opinion, will leave a successor cabinet with less leeway than Begin had.

Labor's Prospects and Policies

22. The prospects that a Labor-led government might emerge in the wake of Begin's departure are slim. Under the leadership of Shimon Peres, Labor has remained politically impotent. It has consistently failed to exploit the errors and setbacks of the Begin government, although the party's recent proposal for a phased unilateral Israeli withdrawal from Lebanon may have seized, at least temporarily, the political highground. The Likud has continued to outdistance Labor in most public opinion polls—although the gap between them has narrowed—and the religious parties thus far have shown no signs of being interested in making a deal with Labor.

23. Although Labor Party leaders could seek to replace Peres—who remains very unpopular with the national electorate—as party leader, it is unlikely that Peres would resign voluntarily. Former Prime Minister Rabin, who still possesses considerable clout within the party, would fight hard to prevent the other most likely contender, President Yitzak Navon, from becoming party leader. Peres also would be reluctant to step aside for Navon. And many in Labor would be uneasy about Navon's known penchant for indecisiveness. While Navon might be a more popular leader for Labor, his presence at the head of an electoral list probably would not be decisive in determining the election outcome. *The next election will be the Likud's to lose—not Labor's to win.*

24. Labor's principal problem remains its inability to attract Sephardi voters, who constitute the numerically decisive component of the Israeli electorate. The deep-seated suspicion and hostility with which Sephardim view Labor is based on historical, ethnic, and cultural strains. The lack of charismatic leadership in Labor intensifies the problem. Even without the very popular Begin, the Likud holds a considerable edge over a party viewed by most Sephardim as dominated by Ashkenazim, and elitist and atheist in outlook. Labor's hope may lie in the possibility that Begin's departure from the scene might split open the Likud bloc. Only in that event, could Labor stand a chance by taking advantage of the disarray to move into a commanding position.

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25. Any successor regime, moreover, would be limited in new departures it might take by a variety of constraints. The Begin legacy would inhibit a new government from departing too radically from Begin's course. So too would pressure from a volatile, frustrated constituency unhappy over his departure from the scene, and suspicious of his successors. *It would take a long time before a new leader would develop sufficient credibility and prestige among the Israeli public to enable him to reshape, rather than be imprisoned by, the national consensus.*

The Economic Factor

26. The Israeli economy may well take its toll on the political standing of the ruling Likud bloc over the next three years, particularly if social and religious tensions intensify. The government will have to contend with a foreign exchange crunch, rising unemployment, and triple-digit inflation. Moreover, the policies decisionmakers may fashion to deal with one problem could easily exacerbate the others. With limited policy tools available and an Israeli public that has come to expect an ever-improving standard of living, economic policymakers will be faced with difficult choices. Ashkenazi-Sephardi tensions could be heightened, particularly if Sephardim perceive that they are bearing a disproportionate share of the burden.

27. We project that the financial gap (the sum of the civilian goods and services deficit, self-financed military payments, and debt repayment) will reach \$7 billion by 1986 if current economic policies are continued, compared with \$4.9 billion last year. Since traditional sources of foreign exchange—US economic aid, transfer payments, and Israeli bond sales—are unlikely to increase enough to cover the gap, the Israeli Government will be looking to commercial bankers for additional funds. One of the key unknowns facing Israeli officials is whether bankers are prepared to lend Israel the amounts required, given the current uncertainties in the international financial markets. An important factor determining bankers' willingness to lend to Israel will be the state of relations between Israel and the United States and their perception of US willingness to act as the lender of last resort.

28. One of the basic tenets of Israeli economic policy has always been that significant unemployment

is unacceptable. In addition to the normal reluctance to incur the political costs of high unemployment, Israeli politicians believe they have a moral obligation to provide jobs for immigrants. The current 5-percent unemployment rate is already approaching the upper limits of tolerance, and could rise above 8 percent by 1986.

29. Since officials of the national labor organization, Histadrut, are well aware that no Israeli government can afford to let unemployment rise, they are not under pressure to compromise on wage demands to protect jobs. As a result, real wages—one of the prime factors behind accelerating price hikes—are likely to continue to rise. While Israel's pervasive indexation system protects most Israelis from the ravages of triple-digit inflation, it impedes government efforts to reduce price hikes and discourages the long-term investment required for job creation. Moreover, the indexation system mitigates the political pressure to deal with triple-digit inflation.

30. Rising unemployment holds the greatest potential for creating political problems for the government, and policymakers would probably act to deal with the situation relatively quickly, especially since elections are required by the fall of 1985. Because balance-of-payments problems are not as visible as rising prices or laid off workers, and because many voters do not understand the issues, Israeli politicians will probably postpone an austerity program until exchange reserves fall to such a low level that the Israeli Government has no alternative but to act or to seek large-scale US aid. The indexation system allows politicians the luxury of decrying rising prices while avoiding the political costs of doing something about them.

31. The policies required to deal with one problem could easily exacerbate the others:

- The austerity needed to deal with the balance-of-payments situation would lead to even higher unemployment and could, particularly if import restrictions are imposed and result in reduced supplies, add to an inflation rate currently running at a 145-percent annual rate.
- Expansionary policies designed to deal with unemployment would push prices up and lead to a deterioration in the balance of payments.

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— Fighting inflation would probably add to unemployment and, depending on the policies used, could worsen the balance of payments.

32. Compounding the problem are legal and political limitations on traditional fiscal and monetary policy tools. Defense, which currently absorbs 25 percent of the budget, probably is sacrosanct from significant cuts because Israel sees its defense spending as essential to maintaining military superiority in the region; another 35 percent is allocated to legally mandated debt servicing and cannot be cut. Thus, budget cuts would have to come from the 40 percent earmarked for social services. Severe reductions in these expenditures would run counter to one of the major functions of government in the view of the Israeli public—providing for an egalitarian society. Israeli law requires that the Bank of Israel fund the government's budget deficit by printing money; thus, Bank of Israel officials cannot effectively control the money supply.

33. Faced with a difficult economic situation, Israeli politicians will look for the easiest way to deal with the problem. They will ask the United States for increased aid on better terms, generous debt relief, or both. Additional assistance would allow the Israelis to postpone dealing with the balance-of-payments problem. It could also provide some of the additional foreign exchange that would be required if expansionary policies were pursued to deal with rising unemployment. In addition, US aid is cheaper than commercial borrowing and probably enhances Israel's ability to borrow commercial funds.

34. Israel will need roughly \$1.5 billion a year in new commercial credit—assuming US economic aid remains at current levels—to avoid drawing down

Even if there are no serious strains in the Israeli-US relationship, bankers may be reluctant to provide additional credit because they would want to limit their exposure in the event that Israel runs into debt problems. This attitude could be reinforced if they perceive that Israel is unwilling or unable to take the steps needed to deal with its economic problems.

35. The Begin government has yet to demonstrate a willingness to tackle its economic problems. Former Finance Minister Hurwitz adopted an austerity program in late 1979 that fell apart a few months later as the Cabinet thwarted his efforts to cut government spending, and inflation soared. Since Begin does not understand economic issues and takes little interest in the economy, it will be difficult for any finance minister to get the support from Begin that could be crucial in implementing an effective austerity program. As a result, economic policymakers will probably delay major policy adjustments as long as possible and hope that the United States will come to their rescue.

36. If additional US aid and commercial funds are not forthcoming or are not sufficient to ameliorate the situation, Israeli policymakers will be forced to implement austerity measures. An austerity package would result in little or no economic growth, increased unemployment, and reduced living standards. Such an economic performance would be unpopular and could cause serious political problems for the Begin government. Particularly vulnerable to the effects of an austerity program would be the majority Sephardi component of the Israeli populace.

The Social/Demographic Issue

37. The dynamic elements of Israeli demography are the growing preponderance of the Sephardi sector and the increasing proportion of the young. These groups traditionally have supported the Likud. They have provided Begin with the backbone of his political strength for many years. The prospects for significant Labor inroads among these groups are poor. Barring some unforeseen development of profound significance—such as massive Israeli losses in another Arab-Israeli war—the Likud seems likely to retain its dominant position with these groups. Economic issues, while not likely to derail Sephardi support for the Likud, could erode that support.

38. While the standard of living for Sephardim has increased over the years along with that of Ashkenazim, they are still at a relative disadvantage. Were the government to institute an austerity program, social tensions between Ashkenazim and Sephardim could be exacerbated. If Sephardim, who are a major source of

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support to the Begin government, perceive that they are bearing a disproportionate share of the burden of austerity—a higher unemployment rate and reduced purchasing power because of subsidy cuts, for example—demonstrations and other forms of political protest could be organized in order to put pressure on the government to alter its policies. The possibility that violence could erupt cannot be ruled out.

39. The long-term domination of the Israeli body politic by the Sephardi population has important implications for Israel, but they may not be of as much foreign policy significance as is conventionally assumed. The Sephardim are not committed hawks. Most of the ideological hawks that form the ultraright Gush Emunim and Tehiya Party are, in fact, Ashkenazi. Although Oriental Jews traditionally have been seen as having especially strong antipathy toward Arabs both within and outside Israel, anti-Arab attitudes are, in fact, as prevalent among Ashkenazim as among the Sephardim. Primary interests of the Sephardim are domestic—they seek improvement in their standard of living and enhancement of their place in Israeli society.

40. Support for Prime Minister Begin among the Sephardi populace is support for him personally, not solely for his territorial-foreign policy stance. They support his oppositional posture, his strong anti-Arab positions, the emotional brand of nationalism he preaches, and his promises of a better economic deal. Nevertheless, while many Sephardim feel that Begin has at times been unacceptably dovish on Arab-Israeli issues and has not delivered on his promises of a better economic future, they are likely to continue to support him and the Likud bloc. The Labor alternative appears to them to be elitist, paternalistic, and quintessentially Ashkenazi.

Begin and US Policy Interests

41. While Begin's basic policies remain intact, circumstances could dictate change in those policies. Of particular importance would be Begin's response to new peace initiatives from Arab states. Begin sees his historical reputation as resting largely on his ability to reach peace agreements with Arab neighbors. Begin retains a deep yen to be a peacemaker, even after the disappointments that have followed in the wake of the Egyptian peace treaty, and would find it difficult to

resist overtures from Jordan's King Hussein or Syrian President Assad. Begin's response to a real peace initiative from Palestinian representatives—unlikely as that appears—would be harder to predict, given his strong visceral response to the PLO. Any Arab leader who shows the kind of courage demonstrated by late Egyptian President Sadat is likely to win a real hearing in Israel, but it will require direct dealings with Israel. Negotiations, in any case, would be difficult and protracted.

42. The course of US-Israeli relations will remain a primary concern for Israeli leaders for the indefinite future. A successor regime would be less responsive to US concerns than Begin because its political weakness would limit its leeway to act contrary to public opinion. The Israelis continue to see the relationship being heavily dependent on the international oil situation. In their view, if the oil glut continues and the political clout of Arab oil-producing states declines, the American tendency to pressure Israel to make territorial and political concessions will similarly lessen. Alternatively, if the oil market tightens, Israelis would expect rougher treatment. American pressure for Israel to negotiate, however, is not likely to cause splits within the Israeli body politic. It is more likely that Israelis will close ranks behind the government in power and the policies it is advancing.

The Soviet Relationship

43. Moscow, in principle, favors establishing a dialogue with Israel and restoring the diplomatic ties severed during the 1967 Arab-Israeli war. It would enhance the USSR's ability to act as an intermediary between Arabs and Israelis, and thus eliminate the US monopoly of having relations with both the Arabs and Israel. Toward this end, the USSR has had periodic contacts with top Israeli leaders and parliamentary delegations and has consistently affirmed Israel's right to exist.

44. In February, however, a deputy chief of the International Department of the Soviet Communist Party's Central Committee rejected Ariel Sharon's call for an Israeli-Soviet dialogue, and Moscow has been unwilling to make significant concessions to Israel. The USSR continues to encourage Syrian opposition to security arrangements delineated in the Lebanese-Israeli accord, conditions that the Begin government

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considers the minimally acceptable ones for northern Israel's security. The USSR also has not budged from its endorsement of an independent Palestinian state.

45. Moscow's reluctance to make major concessions to Israel derives from its limited leverage with both Syria and the PLO. Furthermore, Moscow is concerned that the United States will exploit any Soviet flexibility toward Israel. Another consideration prompting Soviet caution in links with Israel is an

unwillingness to relax their campaign against Zionism and the desire to avoid exposing Soviet Jews to Israeli contacts.

46. The Soviets, therefore, are unlikely to risk becoming more forthcoming toward Israel unless Israel displays flexibility on key issues—the creation of a Palestinian state and return of the Golan Heights—and seems willing to grant Moscow greater influence in the Middle East.

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